

Message Text

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ACTION EUR-12

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TRSE-00 SS-15 STR-07 OMB-01 CEA-01 CIAE-00
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FM AMEMBASSY BUDAPEST
TO SECSTATE WASHDC 2187
INFO AMEMBASSY BELGRADE
AMEMBASSY BERLIN
AMEMBASSY BUCHAREST
AMEMBASSY MOSCOW
AMEMBASSY PRAGUE
AMEMBASSY SOFIA
AMEMBASSY WARSAW
AMCONSUL MUNICH
USMISSION USNATO

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E.O.11652: N/A
TAGS: HU, ECON
SUBJECT: HUNGARIAN PRICE REFORM

1. HUNGARIAN ECONOMIC DAILY VILAGGAZDASAG AUGUST 4
REPORTED THAT THE NATIONAL MATERIAL AND PRICE CONTROL
OFFICE HAS ISSUED DIRECTIVES FOR THE IMPLEMENTATION OF
A GENERAL REFORM OF THE PRODUCERS PRICE SYSTEM.
DIRECTIVES ARE DESIGNED TO DEVELOP NEW PRICES FOR
INTRODUCTION ON JANUARY 1, 1980. PRICE REGULATION IS
TO BE DIRECTED BY AN INTERMINISTERIAL COMMITTEE FOR PRICE
AND PRODUCTION CIRCULATION (TAB).

2. VILAGGAZDASAG'S SUMMARY OF THE NEW DIRECTIVES IS
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SKETCHY, BUT MAIN POINTS INCLUDE:
--THE "SOCIAL NET PROFIT" CONTENT OF PRODUCERS PRICES
(TAXES PLUS ENTERPRISE PROFITS) WILL BE REDUCED. TAXES
ON ASSETS WILL BE ELIMINATED, AND THE TAX ON WAGES
REDUCED TO 24 PERCENT. ENTERPRISES WILL GENERALLY BE
PERMITTED A SIX PERCENT PROFIT ON VALUE OF ASSETS
(FIXED AND VARIABLE CAPITAL STOCK AND WAGES) USED IN

PRODUCTION;

-- REDUCTION OF THE SOCIAL NET PROFIT WILL BE PASSED ON IN REDUCED PRICES FOR DOMESTIC INTERMEDIATE SALES AND FOR EXPORT SALES, BUT WILL BE RECOVERED BY A TURNOVER TAX ON GOODS SOLD FOR DOMESTIC CONSUMPTION. CARE MUST BE TAKEN THAT "THE INTERESTS OF THE STATE BUDGET ARE NOT INFRINGED;"

-- PRICES OF ENERGY, RAW MATERIALS, AND OTHER INDUSTRIAL INPUTS WILL BE DETERMINED BY WORLD MARKET PRICE LEVELS (USING 1977 PRICES AS A BASE, AT LEAST INITIALLY) IN ORDER TO IMPROVE THE RELATION OF DOMESTIC TO INTERNATIONAL PRICES;

-- PRICES OF DOMESTICALLY PRODUCED GOODS WILL BE BASED ON THE COST OF INPUTS, PLUS PROFIT. SOME EXCEPTIONS WILL BE MADE, E.G. IF MARKET PRICES FOR EXPORTS ARE ABOVE THE COMPUTED PRICE, EXTRA PROFIT WILL BE PERMITTED TO ENCOURAGE EXPANSION;

-- ARTICLE NOTES WITHOUT ELABORATION THAT THE GUIDELINES ALSO COVER NEW PRICES IN CONSTRUCTION, TRANSPORTATION AND TELECOMMUNICATIONS, AND TRADE AND OTHER SERVICES.

3. IN ADDITION TO ABOVE POINTS, ARTICLE NOTES THAT THE GUIDELINES DISCUSS MECHANISMS TO MAKE PRICING MORE FLEXIBLE. THE FREE PRICE CATEGORY WILL BE EXPANDED TO BECOME THE DOMINANT CATEGORY IN PRODUCERS PRICE SPHERE, ALTHOUGH THIS DEVELOPMENT MUST BE ACCOMPANIED LIMITED OFFICIAL USE

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BY CLOSE COORDINATION BETWEEN MAJOR PRODUCERS AND PRICE AUTHORITIES; PREVIOUS APPROVAL WILL BE REQUIRED FOR SOME PRICE INCREASES. DIRECT STATE REGULATION WILL CONTINUE WITH RESPECT TO THE MOST IMPORTANT MATERIALS AND SEMI-FINISHED PRODUCTS, AS WELL AS PURCHASE PRICES OF MOST AGRICULTURAL PRODUCTS.

4. COMMENT: THE GUIDELINES AS DESCRIBED IN THIS ARTICLE ARE CONSISTENT WITH PREVIOUS POST REPORTING ON PREPARATIONS FOR A MAJOR PRICE REFORM. THE MOST SIGNIFICANT ASPECT OF THE ARTICLE IS THAT PREPARATIONS FOR REFORM HAVE MOVED FROM POLICY FORMULATION TO PRACTICAL APPLICATION. THE GUIDELINES AS DESCRIBED IN THE ARTICLE DO NOT COVER CONSUMER PRICE FORMULATION. THE MOST POLITICALLY SENSITIVE ASPECT OF THE PRICE REFORM. AS FAR AS WE CAN DETERMINE, DECISIONS ON CONSUMER PRICING POLICIES AND RELATED QUESTIONS OF HOW TO COMPENSATE FOR HIGHER CONSUMER PRICES THROUGH WAGE POLICY ARE NOT AS FAR ADVANCED AS ARE DECISIONS ON PRODUCER PRICE POLICY.

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